

The Role of Remittances in Leveraging Sustainable Development in Latin America and the Caribbean

Manuel Orozco
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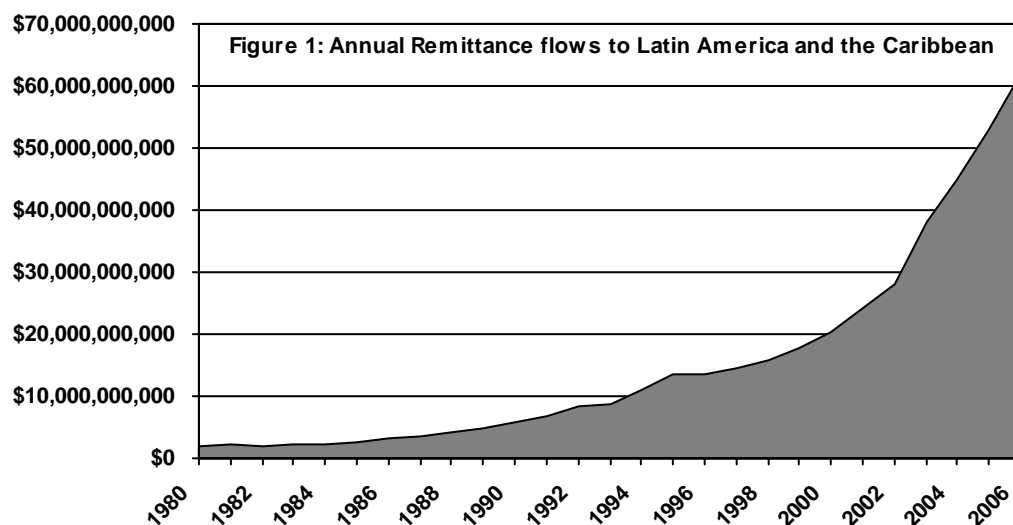
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Introduction

As the global economy increasingly connects goods and people, international money transfers sent by migrants are having an effect on economic growth and local development. This testimony provides an overview of the impact of remittances to Latin America and the Caribbean and identifies prevailing challenges and puts forward recommendations to leverage these flows toward greater and sustainable development.

I. Remittances to Latin America and the Caribbean: a brief overview

The volume of remittance flows to Latin America and the Caribbean has increased to over sixty billion dollars in 2006 (see Figure 1). The increase is due to a number of factors that include reactions to economic downturns in Latin America and the Caribbean, strengthened ties between the U.S. and Latin America, improved competition in money transfers, increases in contact among members in a transnational family and improved accounting of the money received. For example, in 1980 only 17 countries reported flows on remittances; by 2004 the number was 30. Even these figures, reported by Central Banks, are considered to be conservative estimates.



Source: Central Bank of each country

These flows have had an economic impact in several of these economies. First, the sheer volume has become an important source of foreign savings that helps to sustain foreign currency reserves and the financial system. For example, in many Caribbean and Central American countries, remittances are the most important source of income and exhibit far more stable flows than other factors. Second, remittances respond to macroeconomic shifts, particularly to inflation, thus manifesting countercyclical tendencies. Third, in some countries, particularly in smaller ones, these savings contribute to the country's growth rate. Fourth, remittances represent an economic engine attached to an intermediating industry that includes other kinds of services and transactions. Fifth, remittances have a distributive impact in a country's economy.

Table 1: Central America in the global economy, 2005, in millions US\$

| Sector | Guatemala | El Salvador | Honduras | Nicaragua | Costa Rica | D.R. |
|---|-----------|-------------|----------|-----------|------------|----------|
| Remittances | 2,992.8 | 2,830.2 | 1,763 | 850 | 362.0 | 2,410.8 |
| Merchandise Exports (not including maquiladora) | 5,028.6 | 1381.47 | 875.0 | 857.9 | 2,954.0 | 1,397.9 |
| Maquiladora | 352.4 | 1,920.7 | 886.4 | 682.1 | 4,072.3 | 4,734.6 |
| Official Development Assistance* | 218.4 | 211.5 | 641.7 | 1,232.4 | 13.5 | 86.9 |
| Income from Tourism | 868.9 | 542.9 | 472.2 | 207.1 | 1,598.9 | 3,519.7 |
| GDP | 27,400.0 | 17,244.0 | 8,000.0 | 5,000.0 | 20,014.5 | 29,333.2 |
| R+X+A+T/GDP | 35% | 40% | 58% | 72% | 45% | 41% |

Source: Central Bank of each country

In the broader Latin American and Caribbean context, remittances are increasingly taking on an important share of the National Income. Although they only represent 2 percent of regional gross domestic product, the impact of remittances varies across countries and regions and is greater in smaller economies.

At the national level, such variations are associated with the relationship to GDP, to per capita flows and per capita GDP as well as to the cost of sending money. For example, Haiti, Honduras, Nicaragua, El Salvador and Jamaica are countries where the remittances received represent more than 10% of total GDP. However, not all of these countries are relevant when remittances are measured in per capita terms. Those countries that receive more than US\$100 per capita include ten countries, among which are Mexico, Guatemala, Ecuador, Barbados and Grenada. These differences are noted in the average amounts sent as well as in the relationship between the annual amount sent and per capita income in these countries. The table below highlights these differences. Although the average amount sent is around \$270 per month, when that figure is compared to per capita GDP, again the results vary. Recipients in Haiti, Honduras and Bolivia, for example, receive amounts that are nearly three times per capita GDP. The cost of sending money also varies across countries and may be associated with volume; the lower the volume entering a country, the more expensive the transfer will be.

The differences in these trends are a function of specific country conditions as well as the history of migration. For example, although Central America, the Caribbean and Mexico have a historical relationship of migration to the United States, each migratory pattern and its subsequent remittance flows respond to the realities of these countries. Thus, Salvadorans and Dominicans may receive relatively similar volumes; however, their migrant populations are different in size and the timing of migratory flows responds to varying dynamics. In the case of El Salvador, they responded to the civil war and its post-conflict process, whereas in the Dominican Republic there is a response to a longer historical tradition with one reference point being emigration in order to escape the Trujillo dictatorship.

Table 2: Remittances and key economic indicators

| | Remittance transfers ... | | | | |
|----------------------------------|--------------------------|------------|--------|------------------|----------------|
| Country | and GDP | Per capita | Cost | Average Transfer | Annual Volume |
| Mexico* | 2.98% | 187.18 | 6.0% | 351.00 | 23,053,000,000 |
| Brazil* | 1.09% | 30.85 | 8.13% | 541.00 | 7,372,650,000 |
| Colombia* | 4.84% | 90.48 | 5.0% | 220.00 | 4,200,000,000 |
| Guatemala* | 11.42% | 237.54 | 5.6% | 363.00 | 3,609,810,000 |
| El Salvador* | 18.28% | 411.31 | 5.2% | 339.00 | 3,316,000,000 |
| Dominican Republic* | 13.35% | 271.03 | 6.4% | 176.00 | 2,700,000,000 |
| Ecuador* | 6.01% | 136.07 | 3.9% | 293.00 | 2,900,000,000 |
| Jamaica* | 18.33% | 622.78 | 8.2% | 209.00 | 1,770,000,000 |
| Peru* | 3.71% | 89.21 | 4.6% | 169.00 | 2,869,250,000 |
| Honduras* | 23.09% | 244.72 | 5.8% | 225.00 | 2,359,000,000 |
| Haiti* | 34.53% | 115.50 | 6.7% | 123.00 | 1,100,000,000 |
| Nicaragua* | 19.05% | 154.91 | 5.2% | 133.00 | 950,000,000 |
| Paraguay* | 8.52% | 89.31 | 9.11% | 263.00 | 650,000,000 |
| Bolivia* | 10.17% | 93.66 | 5.6% | 235.00 | 989,000,000 |
| Costa Rica* | 2.11% | 92.44 | 9.46% | 301.00 | 520,000,000 |
| Argentina** | 0.2% | 7 | 9.02% | 212.00 | 800,000,000 |
| Panama* | 1.36% | 61.90 | 10.50% | 196.00 | 292,100,000 |
| Guyana* | 36.89% | 359.52 | 10.14% | 179.00 | 270,000,000 |
| Barbados | 4.3% | 418 | 11.66% | 220.00 | 300,000,000 |
| Trinidad and Tobago* | 0.77% | 70.75 | 10.41% | 200.00 | 110,000,000 |
| Uruguay** | 0.3% | 71 | 11.28% | 198.00 | 115,000,000 |
| Belize* | 3.77% | 148.70 | 8.78% | 220.00 | 93,150,000 |
| Suriname* | 4.20% | 122.49 | 10.17% | 220.00 | 102,300,000 |
| Grenada** | 5.2% | 220 | | 220.00 | 23,000,000 |
| Venezuela, RB* | 0.11% | 4.64 | 17.10% | 138.00 | 124,000,000 |
| Chile** | 0.0% | 1 | 8.90% | 279.00 | 13,000,000 |
| Antigua and Barbuda** | 1.5% | 140 | | 220.00 | 11,000,000 |
| Dominica** | 1.5% | 56 | | 220.00 | 4,000,000 |
| St. Kitts and Nevis** | 1.2% | 86 | | 220.00 | 4,000,000 |
| St. Lucia** | 0.6% | 25 | | 220.00 | 4,000,000 |
| St. Vincent and the Grenadines** | 0.8% | 27 | | 220.00 | 3,000,000 |

Source: Central Banks of each country, World Bank Development Indicators, data collected by the author. Note: * 2005; ** 2003.

Table 3: Remittances and other indicators

| | Rural areas | Female Recipients (%) | Female Senders (%) | Recipients with Bank Accounts (%) | Non-Recipients With Bank Accounts (%) | Senders With Investment (%) | Recipients with Investment (%) |
|------------|-------------|-----------------------|--------------------|-----------------------------------|---------------------------------------|-----------------------------|--------------------------------|
| Bolivia | | 52 | 71 | 44 | 35 | 4 | |
| Colombia | | 68 | 54 | 52 | 45 | 5 | 14.5 |
| D.Republic | 40 | 73 | 45 | 66 | 58 | 3 | 21.1 |
| Ecuador | 57 | 74 | 28 | 46 | 34 | 1 | 29.8 |
| ElSalvador | 39.5 | 72 | 46 | 31 | 19 | 3 | 10.6 |
| Guatemala | | 80 | 29 | 41 | 17 | 2 | 5.1 |

| | Rural areas | Female Recipients (%) | Female Senders (%) | Recipients with Bank Accounts (%) | Non-Recipients With Bank Accounts (%) | Senders With Investment (%) | Recipients with Investment (%) |
|-----------|-------------|-----------------------|--------------------|-----------------------------------|---------------------------------------|-----------------------------|--------------------------------|
| Guyana | 40 | 71 | 48 | 62 | | 8 | 11.7 |
| Haiti | 54 | 53 | 32 | 68.4 | | 25.5 | 17.7 |
| Honduras | | | 37 | 34 | 16 | 4 | 4 |
| Jamaica | | | 49 | 65 | 60 | 2 | |
| Mexico | 45.7 | 63 | 17 | 29 | 28 | 2 | |
| Nicaragua | 45 | 72 | 44 | 10 | 10 | 3 | 27 |
| Peru | | 46 | | 37 | 35 | | |

Source: Central Banks of each country, World Bank Development Indicators, data collected by the author

A look at these flows and their manifestations in the Latin American and Caribbean region shows the presence of three distinct groups as they relate to the impact these funds have in each country. One group is represented by those countries whose flows have an effect on most if not all the indicators mentioned above. This means that remittances have an important presence both in the country's national and per capita income, as well as in the inflow to a household's income, which is at least twice the average per capita income. A second group is one wherein the effect of remittances is felt in half of these indicators, and the third group is that which is minimally impacted by remittances.

Table 4: Impact of remittances on Latin American and Caribbean economies

| Impact of Remittances | | |
|---|---|--|
| Strong | Medium | Low |
| Guatemala Ecuador Nicaragua El Salvador Haiti Honduras Bolivia Guyana Jamaica Mexico | Paraguay Colombia Peru Dominican Republic Brazil Suriname Costa Rica Belize Grenada Barbados | Dominica Panama Antigua and Barbuda St. Vincent and the Grenadines Chile Trinidad and Tobago Argentina St. Kitts and Nevis Uruguay St. Lucia Venezuela, RB |

Ratio of remittances: 1: < .66; 2:0.67-1.5; 3: > 1.51; Remittances as % of GDP:1: < 1%; 2: 1 to 4%; 3:>4%; Remittances per capita: 1<36; 2: 37-100; >100; Remittances cost: 1: > 7.5; 2: 7.6-9.5; 3: <9.5.

Remittances and finance

Studies show that depending on the groups and families, migrants may see a portion of remittance as an asset in itself because they then use it to invest in their families' material circumstances to transform their lives.¹ Remittances sent to address educational needs, for example, create such a basis for asset building.

¹ Pozo, Susan and Catalina Amuedo-Dorantes "Remittances as Insurance: Evidence from Mexican Migrants," *Journal of Population Economics*, 2006,

Investment in business and real estate, in particular, and migrant donations to their local communities are unambiguously concrete forms of financial asset accumulation at the individual and community levels. In the case of financial issues we find that between one and two in ten migrants invest in their home country, and nearly three in ten build savings at home. The table below shows the kind of asset building practices that were found to take place among migrants from twelve different Latin American countries.

Table 5: Percent of remittance senders and recipients who . . .

| | Sender | Recipient |
|-----------------------------------|--------|-----------|
| Have a bank account | 27 | 50 |
| Mortgage loan | 10 | 10 |
| Have a small business | 3 | 17 |
| Have a small business loan | 1 | 4 |
| Have a student loan | 1 | 3 |
| Are paying insurance policies | 2 | 6 |
| Lends money to family to invest | 2 | 2 |
| Do not have financial obligations | NA | 32 |

Source: Orozco, Manuel. Survey of senders and recipients. See report on Transnational Communities.

Table 6: Percent of remittance senders/recipients who in addition to remittances help/are helped by their family to address other economic obligations, such as. . .

| | Sender | Recipient |
|---|--------|-----------|
| Mortgage loan | 12 | 28 |
| Pays loans to take care of a small business | 2 | 27 |
| Pays for a student loan | 2 | 8 |
| Helps pay for health insurance | 2 | 16 |
| Other financial obligations | 22 | 26 |

Source: Orozco, Manuel. Survey of senders and recipients. See report on Transnational Communities.

The table is based on surveys of 3,000 remittance senders that were used to gauge the determinants of sending as well as the factors that affect financial asset building activities.² In looking at these numbers, the link between migrant savings and finances is clearer. Statistical analysis showed that females remit about 9 percent less money than do males, that the amount of funds remitted increases by about 5 percent for each year of age, and that the longer an individual has lived in the United States, the less they remit. However, the longer a person has been remitting the more money they tend to remit.

When examining the relationship between remittance sending and financial obligations, the results demonstrate that when an immigrant has a bank account, it increases the amount remitted by 9 percent. In addition, individuals who report having a savings account in the home country remit nearly one-quarter more dollars.

² Similar results were found among South East Asian migrants and their families.

Sending Monies for Business and Loans³

Using financial obligations, such as investing in a small business or paying off a loan, as the dependent variable it is possible to see that the most important factor in whether money is sent to pay off loans is whether or not the sender has a savings account in the home country. This may reflect the fact that savings abroad are often part of small investment ventures migrants keep in the home country. Indeed, senders with savings accounts in the home country are 3.3 times more likely to send money to support a business abroad than those without savings accounts.

Otherwise, monies sent to help pay off a loan abroad behave somewhat similarly to general remittances. Education is associated with a decrease in the likelihood that a US migrant will choose to pay off loans abroad. In addition, there is a reduction of 7 percent for each year that a migrant has been in the U.S. in the likelihood of sending money to pay off loans. This is nevertheless countered by the finding that each year of remitting is associated with a 20 percent increase in the likelihood that money will be sent to help pay off a loan. Yet, at some point increasing years of remitting is associated with a decreasing likelihood that monies will be sent to pay off loans. Also like the general results for the amount of remittances sent, senders giving to a spouse are 2.4 times more likely than those not sending to a spouse to give money to pay off loans. Finally, having a bank and a savings account substantially increase the likelihood that a sender will remit funds to help pay off a loan abroad.

Like the analysis of the amount of remittances sent, these results suggest that U.S. migrants with formal financial commitments are, in turn, more likely to send money. In these two outcomes, the moneys are targeted for what can only be considered investment purposes in the home country, e.g., running a business or paying off loans. Once again, this suggests that financial diversification is associated with perceived interests to, and knowledge of, making productive monetary contributions abroad.

II. Limitations and challenges of the impact of remittances

Although remittances play an important role as a social protection mechanism in many instances and practices, is important to bear in mind that the overall effect of these flows will depend in large part on the capacity of the local economy and services to absorb these savings.

A study conducted by the author in five communities in Latin America and the Caribbean looked at the extent to which services were matched by a demand from remittance recipients. Here in this section we provide a synthesis of the interplay between remittance transfers and the local economy.⁴ The cities included a range of migration experiences. In the case of Jerez, Zacatecas or Suchitoto, El Salvador, migration has been part of a longstanding pattern dating at back least thirty years. More recent migrant communities were also studied, such as Salcaja, where residents predominantly started emigrating in the eighties during the civil war in Guatemala, or Catamayo, Loja, Ecuador where emigration

³ This section is reproduced from the report *Transnational Engagement, Remittances and their Relationship to Development in Latin America and the Caribbean*, and comes from section 4b.

⁴ The comparative study is found in Orozco 2006a; the authors of the independent reports are Eguez et al. 2006, Andrade et al. 2006; Reifsteck 2006; Garcia Zamora 2006 and Alvarez Aragon et al. 2006.

developed in the late nineties as a result of the migratory waves resulting from the economic crisis of 2000. Overall, these communities are illustrative of places where at least one third of the flow of remittances goes within their respective countries: one third of the flow goes to the capital cities, one third to provincial capitals, and one third is captured by these types of semi-rural or rural communities.

The local economies of these communities struggle with structural and institutional challenges as well as with the current demands of the global economy. Productivity is constrained by relatively small labor forces, and subsistence agriculture is still a pattern in any of these cities. Moreover, in each community only one or two main sources of income exist, thus posing difficulties in diversifying sources of growth. Jerez is a mixture of agricultural activity and commerce. Salcája operates on subsistence agriculture and textile production of garments sold for the regional market. Suchitoto is also agriculturally oriented, focusing on the production of basic staples with a small and emerging tourist industry; and Catamayo is a bifurcated economy with two enclaves, an airport and a sugar cane farm, that coexist with local subsistence agriculture and entrepreneurs working in commercial activities. Although connected to larger urban centers, these cities maintain relationships of economic dependence on those centric places.

Table 7: Basic profile of five cities

| | Jerez, Zacatecas Mexico | Salcája, Quetzaltenango, Guatemala | May Pen, Jamaica | Suchitoto, El Salvador | Catamayo, Loja, Ecuador |
|--|-------------------------------|--|-----------------------|------------------------------|-------------------------------|
| Population | 37,558 | 14,829 | 57,332 | 17,869 | 27,000 |
| Labor force (%) | 41% | 37% | | 34% | 31% |
| Population ages 5-19 | 34.7% (ages 0-14) | 36.81% (5,459) | 32.3% (18,520) | 34% (7 to 18) | 30% |
| Main economic activities (%) --Commerce and Services --Agriculture --Manufacturing --Construction | 35%; 19%; 13%; 11%; | 42%; 4% (excl. subs.); 6%; | | 15.5%; 52.2%; 7.6%; | 39%; 20%; est. 8% |
| Proximity to major urban center | 45kms to Zacatecas | 9 kms to Quetzaltenango | 58 kms to Kingston | 45 kms to San Salvador | 36 kms to Loja |

Source: Orozco 2006a; Eguez et al. 2006; Andrade et al. 2006; Reifsteck 2006; Garcia Zamora 2006; Alvarez Aragon et al. 2006.

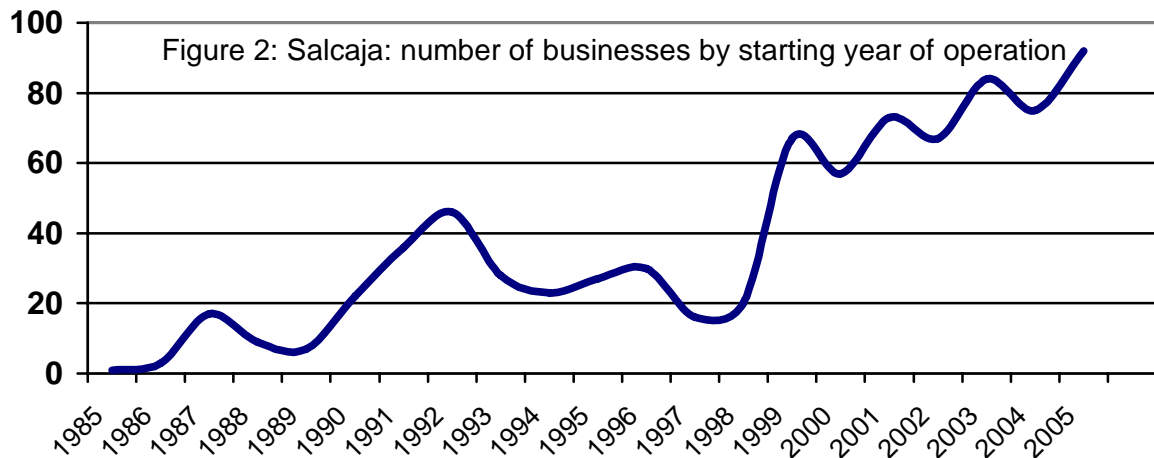
Moreover, these cities operate on low wages and precarious employment, unable to compete with other markets or in the global economy. Wages are often one third or one quarter of the cost of living. An agricultural worker in Catamayo working in sugar cane fields earns US\$150 a month, and a store clerk in Salcája earns US\$200. This reality makes it hard for people to maintain a decent standard of living through their own employment. The cost of the basic food basket ranges between US\$150 and US\$350. This gap between earnings and cost of living has been a key factor in the decision to migrate for many people.

Table 8: Monthly Cost of Living, Income and Remittances

| | Jerez | Catamayo | Suchitoto | Salcaja | May Pen |
|--------------------------------------|-------|----------|-----------|---------|---------|
| Cost of living . . . | | | | | |
| Food | 219 | 228 | 209 | 201 | 245 |
| Services (utilities) | 60 | 44 | 40 | 43 | 99 |
| Education | 13 | 32 | 29 | 56 | 98 |
| Health | 40 | 41 | 34 | 68 | 22 |
| Entertainment | 27 | 3 | 40 | 35 | 14 |
| Total | 359 | 348 | 352 | 403 | 478 |
| Income . . . | | | | | |
| Wages | 323 | 303 | 125 | 162 | 295 |
| Total earnings, remittances included | 930 | 501 | 622 | 353 | 320 |
| Monthly remittances amount received | 637 | 331 | 515 | 181 | 247 |

Source: Orozco 2006a.

The productive base of the local economies is reduced to commercial activities, subsistence agriculture and some artisanal industrial work. Those segments that are more productive are concentrated in some economic enclaves, such as sugar cane production in Catamayo, vegetable production in Suchitoto or textile and garment manufacturing in Salcaja. However, there has been an overall increase in the number of registered businesses over the past six years.



Source: Orozco 2006a; Alvarez Aragon et al. 2006.

Table 9: Business Activities of local economies (number)

| Type | Catamayo | Suchitoto | Jerez | May Pen | Total |
|--------------|----------|-----------|-------|---------|-------|
| Retail Store | 18 | 60 | 10 | 126 | 214 |
| Food market | 57 | 4 | 23 | 30 | 114 |
| Restaurant | 41 | 36 | 2 | 16 | 95 |

| | | | | | |
|------------------------------|----|----|----|----|-----|
| Professional serv | 15 | 17 | 13 | 19 | 64 |
| Other commercial activities | 3 | 39 | 1 | 6 | 49 |
| Other services | | 36 | | 91 | 127 |
| Entertainment | 13 | 13 | 9 | 15 | 50 |
| Transportation | | 20 | 5 | 3 | 28 |
| Construction and Maintenance | 2 | 11 | 10 | 10 | 33 |
| Hardware and Ind. Warehouses | 6 | 2 | 11 | 15 | 34 |
| Auto and repairs | 5 | | 11 | 35 | 51 |
| Food manufacturer | 4 | 11 | 4 | | 19 |
| Gas | 7 | 2 | 6 | 4 | 19 |
| Hotel | 13 | | | 2 | 15 |
| Financial | 6 | 1 | 10 | 10 | 27 |
| Furniture | 2 | | 5 | 5 | 12 |
| Bookstore | | 4 | | 4 | 8 |
| Media | 1 | | 2 | 10 | 13 |
| Other industrial activities | | 3 | | 4 | 7 |
| Tourism | 1 | | | 1 | 2 |

Source: Orozco 2006a; Eguez et al. 2006; Andrade et al. 2006; Reifsteck 2006; Garcia Zamora 2006; Alvarez Aragon et al. 2006.

Remittance recipients and the local economy

Migrants who have left these communities regularly send money to their families so that they can take care of their basic needs and hopefully save. The number of remittance recipients in these cities is relatively variable but is around 15% of the population, representing between two and six thousand households which each receive an average of US\$300 a month. Given the poor conditions of the local economy, the arrival of nearly one million dollars a month into the economy is more than a welcome flow; it is also a potential economic stimulus.

Table 10: Remittance recipient households

| | Jerez, Zacatecas Mexico | Salcaja, Quetzaltenango, Guatemala | Suchitoto, El Salvador | Catamayo, Loja, Ecuador | May Pen, Jamaica |
|--|-------------------------------|--|---------------------------|-------------------------------|---------------------|
| Percent of remittance recipient households | 18.20% | 15% | 23% | 15% | |
| Estimated number of remittance recipients | 6,836 | 2,224 | 2,073 | 4,050 | |
| Number of people in household | 4 | 5 | 5 | 6 | 4 |
| Number of children in household | 1 | 2 | 3 | 2 | 2 |

Source: Estimates based on interviews and country census data

Remittance recipients spend money predominantly on basic food items needed to take care of households composed of an average of six members. The majority of the foodstuff purchased is locally or nationally produced, thus benefiting domestic producers and the economy. Most remittance recipients also spend money on education, health and other services with an average expenditure of US\$500 a year on health and education. In fact, half of remittance recipients have made repairs on their home or invested in buying a new home

in the past five years. One third of those homebuyers did so at the investment request of the relative living abroad. Moreover, half of remittance recipients have invested in some small business activity, most of which was also prompted by the remittance sender. What's more, those who are able to keep some disposable income after daily expenses open savings accounts. This is more prevalent when there are more financial intermediaries available in the community or financial institutions reach out to these costumers. In Catamayo, for example, there are three credit and savings cooperatives and one bank that offer basic financial services to recipients. Similarly, Salcaja has one cooperative and two commercial banks. The Salcaja cooperative is proactive in reaching out to remittance beneficiaries and has several marketing tools to sell financial services to recipients.

Table 11: Remittance recipients who have invested in a small business or have savings accounts (%)

| | Jerez | Catamayo | Suchitoto | Salcaja | May Pen |
|-----------------|-------|----------|-----------|---------|---------|
| Invest | 22.2 | 58.8 | 13.3 | 30.8 | 44.4 |
| Savings account | 11.1 | 29.4 | 86.7 | 61.5 | 88.9 |

Source: Orozco 2006a.

Despite the fact that these families are investing or own bank accounts, the extent to which suppliers in the local economy cater and market their products to this market segment is very limited at best. This situation does not apply only to financial institutions but to health, education, and other services. The quality of services provided is rather poor and supply is sparse, with some exceptions. Local businesses do not target this population group as a source of wealth generation, thus missing opportunities to maximize on the multiplying effect of these flows. At most there is a tacit acknowledgement that their businesses benefit from the demand of products and services from remittance recipients.

Both education and health sectors perform poorly in these communities. Institutions do exist, predominantly in the public sphere, but do not provide first class services to people. Schools are understaffed, teachers are ill prepared, and health provision is rather inadequate or expensive. For example, in Jerez, there are only two high-schools in a city of more than 20,000 people, 30% of which are under the age of 18. A similar situation is found in Suchitoto. In both cases, many students are forced to travel to their closest economic centers to obtain education. In the case of Salcaja, private institutions have emerged to fill this gap. As a result, many remittance recipient parents have taken advantage of this sector, putting their children in private schools for an improved education.

Table 12: Education, health and finance institutions

| | Jerez, Zacatecas Mexico | Salcaja, Quetzaltenango, Guatemala | Suchitoto, El Salvador | Catamayo, Loja, Ecuador | May Pen, Clarendon, Jamaica |
|------------------------|-------------------------------|--|--|-------------------------------|-----------------------------------|
| Number of high-schools | 2 | 12 (públicas), 8 (privadas) | 1 public high school, 1 vocational center | 8 | 4 |

| | | | | | |
|---------------------------------|--|----------------------------|--|----|---|
| Number of health centers | 3 private hospitals, 4 public hospitals; 31 specialists; 24 general practitioners; | 1 (público), 25 (privados) | 1 public hospital, 3 private medical clinics | 25 | 1 public hospital, 3 private medical centers, 6 private practitioners |
| Number of commercial banks | 4 | 2 | 0 | 1 | 6 |
| Number of credit unions or MFIs | 1 | 1 | 3 | 3 | 3 |

Source: Orozco 2006a; Eguez et al. 2006; Andrade et al. 2006; Reifsteck 2006; Garcia Zamora 2006; Alvarez Aragon et al. 2006.

Businesses do not seek to innovate or adapt to changing demands and realities accompanying the inflow of remittances. In education, for example, people invest predominantly in basic services and do not spend on greater educational opportunities such as putting children in extracurricular activities, paying for tutoring lessons, or taking computer classes. This lack of approach is informed as much by limited knowledge on the part of parents as to what they should do for their children's education as by the lack of supply of educational services. This latter issue is perhaps more relevant because remittance recipients are willing to spend on education but see few incentives to do so because the supply of services is relatively poor.

Table 13: Type of school obligations people engage (%)

| | Jerez, Zacatecas Mexico | Salcaja, Quetzaltenango, Guatemala | Suchitoto, El Salvador | Catamayo, Loja, Ecuador | May Pen, Clarendon, Jamaica |
|---------------------------|-------------------------|------------------------------------|------------------------|-------------------------|-----------------------------|
| Fees | 15 | | 37 | 57 | |
| School registration | 40 | 76 | 35 | 82 | 92 |
| Transport | | 31 | | 7 | 54 |
| Food | 23 | 5 | 26 | 2 | 54 |
| School supplies, uniforms | 36 | 71 | 62 | 61 | 96 |
| Activities | | | 22 | 8 | 33 |
| Other | 11 | 44 | | 5 | 4 |

Source: Orozco 2006a; Eguez et al. 2006; Andrade et al. 2006; Reifsteck 2006; Garcia Zamora 2006; Alvarez Aragon et al. 2006.

Looking to an inventory of all businesses operating in the community, there were very few, if any, education related businesses except for school and office supply stores.

Table 14: Businesses operating in education related activities

| | Jerez | Suchitoto | Salcaja | Catamayo | May Pen |
|-----------------|-------|-----------|---------|----------|---------|
| Private schools | 11 | 0 | 8 | 4 | 0 |
| Office supply | 0 | 1 | 18 | 7 | 4 |
| Internet | 0 | 2 | 9 | 4 | 3 |

| | | | | | |
|----------------------------|----|---|----|----|---|
| Total number of businesses | 11 | 3 | 35 | 15 | 7 |
|----------------------------|----|---|----|----|---|

Source: Data provided by municipalities in every city

When businesses were interviewed about their business perspectives, their approach was relatively crude or simplistic and asserted that remittance recipients were not necessarily a business target. However, all businesses were quick to acknowledge that recipient patronage was important to bringing in revenues to their stores, and that in many cases they have had to respond to changing demands from recipient households.

Overall, local businesses respond to the local demands but provide insufficient resources to meet the market preferences of remittance recipients. One reason is their lack of access to finance or ability to scale up their businesses. In addition, their knowledge of recipients' market preferences and expectations of revenue generation are scant. They express frustration about the little opportunities or choices available. For example, one store owner expressed that "There is no development that stimulates the municipality, and it is surprising to have a place with such rich resources as remittances where no one is taking advantage of them for anything productive." A drugstore owner in Jerez said, "migrants visit or send money because they have roots here. But local businesses, commerce, don't know how to take advantage of these flows in investment or commercial projects. There isn't even a chamber of commerce that motivates economic activities."

3. Policy opportunities

The contribution of remittance transfers and earnings to families in Latin America and the Caribbean provides more than safety nets to many people. But the limitations that the flows often face require policy consideration as these initiatives can better leverage the flows on broader structural issues such as education and health.

Overall the policy effort must aim at modernizing the productive base of local economies while leveraging resources from migrant foreign savings. In concrete terms this means linking investment opportunities, savings creation, local and central government enabling environments and increased risk propensity among local, national and transnational entrepreneurs.

We identify initiatives where donor activity can be critically important to promote leveraging schemes through remittance funds and migrant capital investment.

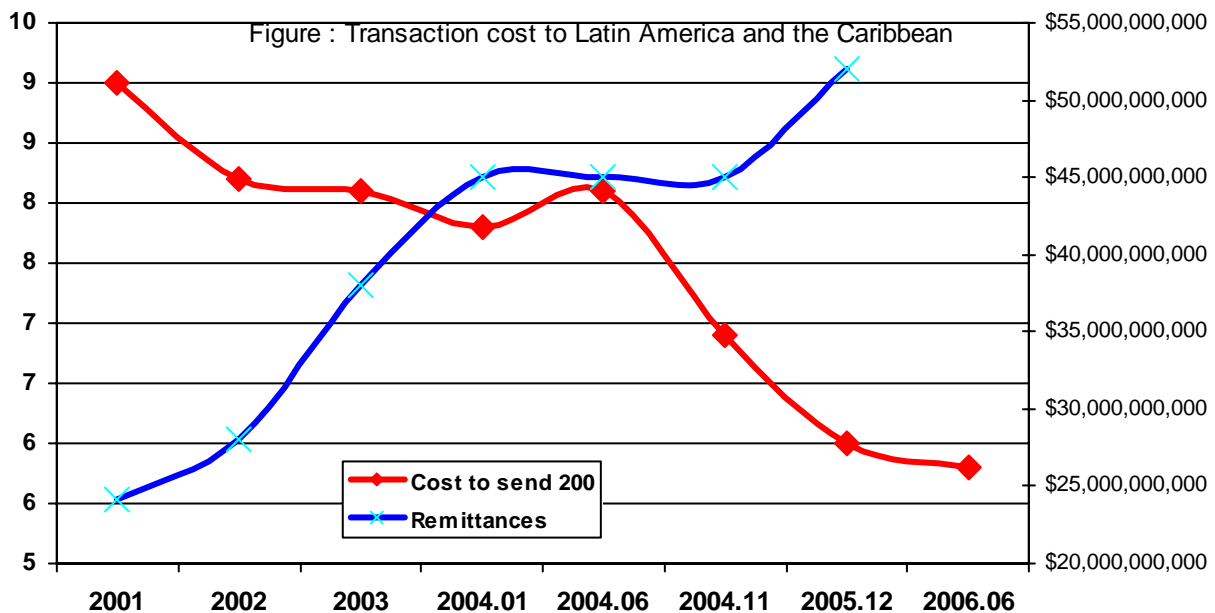
1. Improve competition and cost reduction;
2. Accelerating financial intermediation projects with credit unions and MFIs;
3. Engaging banking institutions more actively by identifying their opportunity costs in rural areas, including community reinvestment schemes by banking financial institutions;
4. Supporting projects on feasibility investment schemes to develop investment portfolios, including recommendations on business consolidation where microenterprise is ineffective or inefficient or technical assistance for business development, particularly among those seeking to return to their countries;
5. Providing tax breaks on the import of technology devices that can enhance the use of alternative payment instruments, such as debit cards or mobile banking;

6. Linking investment opportunities to the transformation of subsistence agriculture, while relaxing investment red tape and including outreach for migrant investment in the investment promotion offices available in all of these countries;
7. Designing projects that include education and health services among a range of other services offered by MFIs in cooperation with schools, public or private:
 - a. Education funds, tutoring classes, extracurricular activities, internet;
 - b. Health insurance, specialized medicine funds;
 - c. Goals and standards among community leaders, financial institutions and local governments to raise educational attainment from 6th to 12th grade levels;
8. Engaging local governments and the private sector to review their role as environment enablers to promote investment and increase productivity.
9. Reaching out to the diaspore
10. Macroeconomics of remittances and finance: donor cooperation

Here we discuss some of these recommendations:

Improve competition and cost reduction

In the past several years, sending remittances from the United States to Latin America has become much cheaper. The cost of sending \$200 in the mid-1990s averaged about \$30 (or 15 percent). It dropped to about \$20 by 2001 and to some \$12 (or six percent) by 2005. The amount saved was approximately \$5 billion just last year (far more than overseas aid to the region).



Much of the declining cost can be explained by growing competition among money transfer operators (MTOs). And the companies compete on prices and services. The use of technology has also increased. “Directo a Mexico” is an automated clearinghouse system developed by the Federal Reserve Bank of Atlanta and the Bank of Mexico and charges US banks a fee of only 67 cents per transaction to transfer money to Mexican

banks. Other companies are expanding their use of ATMs, debit and credit cards, and prepaid cards.

Opportunities to further reduce costs deal with mitigating adverse activities that affect MTOs competition, such as closing of bank accounts, and introducing alternative methods to transfer remittances such as prepaid cards.

The recent regulatory focus on MTO's has driven a significant increase on the regulatory scrutiny and regulatory oversight on bank's services offered to MTO's. As a result of the regulatory focus, banks have grown concerned about the resulting increased compliance management costs and the increased risk of doing business with MTO's. A large number of banks have decided to either exit relationships with MTO's and/or to significantly reduce the number of MTO's they serve. Today a number of MTO's are struggling to find banks that are willing to serve their needs and in some cases they may be facing increased banking service costs. A number of MTO's have had to suspend part or all of their operations

New technologies should increasingly allow for far cheaper account-to-account transactions, but the remittance companies, financial institutions, and both senders and recipients will have to learn how to use them and make substantial adjustments in their behavior. It is encouraging that nearly 30 percent of remittance recipients already use debit or credit cards; this number is as high as 50 percent in some countries. An important experience is that of Jamaica National Building Society.

The Jamaica National Building Society (JNBS) through its subsidiary JN Money Services Ltd. (JNMS) serves Jamaicans living in the diaspora by facilitating remittance services in Canada, the USA and the UK. In partnership and cooperation with USAID, JNBS chose to automate the process of sending and receiving money transfers through swipe card technology. As a result it now has over 70,000 cards users and 50% of remittance recipients have been brought into the formal banking system, with 25% of those receiving their remittances through a card product which is then used to make purchases at those small businesses that accept debit card purchases. What's more, the majority of the bank's small business clients also benefit from making remittance payouts through increased access to both credit and remittance receiving customers. Rates of saving have increased considerably, not only through direct deposits to savings accounts, but also by reducing the amount of cash in circulation and through the increased use of electronic transactions.

Accelerating financial intermediation projects with credit unions and MFIs

The experience so far has demonstrated that small savings banks, microfinance institutions and credit unions play key roles in transforming remittance recipient clients into bank clients at non-negligible rates (Orozco 2005) and in turn increasing savings and investment ratios in communities where remittances arrive. However, few institutions are involved in remittance transfers or receive support to do so. In Latin America and the Caribbean, less than ten percent of remittance-paying institutions are credit unions or MFIs, yet they are reaching out to recipients more persistently.

Table 15: Percent distribution of locations by type of business

| Type of payer |
|---------------|
|---------------|

| Country | Bank | Cooperative, credit union, popular bank | MFI | Bureau of Exchange | Retail store | Post office | Home delivery |
|--------------------|-------|---|-------|--------------------|--------------|-------------|---------------|
| El Salvador | 67.5% | 6.4% | 1.8% | 1.4% | 16.4% | . | 6.6% |
| Honduras | 61.5% | 1.1% | 1.7% | 8.9% | 26.8% | . | . |
| Ecuador | 59.4% | 4.3% | . | . | 36.3% | . | . |
| Mexico | 55.3% | 2.1% | .0% | 2.3% | 40.2% | . | . |
| Haiti | 50.9% | .6% | 9.8% | . | 38.6% | . | . |
| Peru | 50.8% | 3.5% | 3.2% | 6.6% | 35.1% | .8% | . |
| Bolivia | 47.5% | 12.4% | 18.6% | .1% | 20.3% | 1.1% | . |
| Colombia | 39.5% | . | . | 46.8% | 13.7% | . | . |
| Dominican Republic | 39.1% | 2.4% | .1% | 10.3% | 48.2% | . | . |
| Jamaica | 26.6% | 13.2% | 1.0% | .7% | 46.1% | 12.4% | . |
| Guatemala | 23.5% | 3.3% | .4% | . | 72.8% | . | . |
| Nicaragua | 17.7% | 18.6% | 9.7% | . | 53.9% | . | . |
| Guyana | 7.7% | . | . | . | 56.9% | 35.4% | . |

Donors are slowly working towards support of these institutions, yet more attention is needed. The Inter-American Development Bank has invested more than seventy million dollars to leverage remittance transfers by providing support to MFIs. The assistance pays attention to financial product design and marketing and technology. However, accelerating support and participation of these financial institutions will be of critical importance to get people into financial institutions and increase their financial education and assets.

Credit unions, for example, are more oriented towards remittance recipients and have sold financial products and leveraged their funds. This is particularly the case of Salcaja Credit Union and Acoproduzca in Suchitoto (member of Fedecaces), which have both developed strategies for attracting clients and turning them into members. Their banking rates are low, but may grow depending on their strategies and efforts. Currently Salcaja has 1,000 remittance recipient clients, and Acoproduzca has 300 (Alvarez Aragon et al. 2006). Acoproduzca also attracts savings from remittance recipients who do not pick up their money: in April 2006 the cooperative received US\$20,000 in deposits, the majority of which came from remittance recipients. Banco de Loja in Catamayo is the third major competitor in the local remittance market controlled by two agents and offers financial products to recipients.

Types of technical assistance that can be offered include: **EXPLAIN**

- Financial product design
- Financial product marketing
- IT development
- Market research
- Regulatory compliance

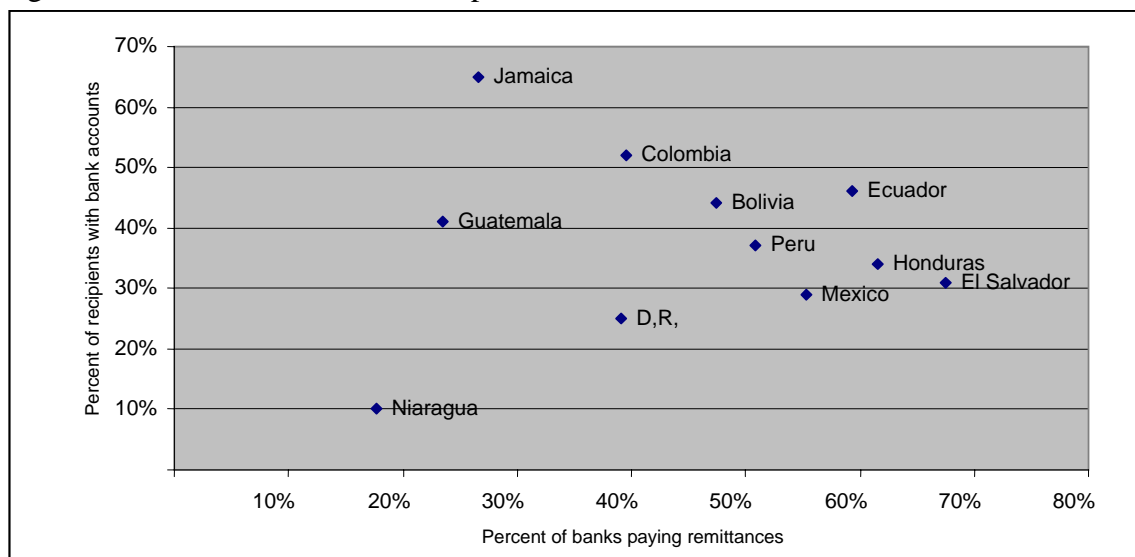
Engaging banking institutions

These efforts to bring people into savings and credit institutions do not exclude banking. Banks are at the core of providing the full range of financial opportunities while at the same

time increasing profitable schemes. Governments and donors should work with banks to more actively identify their opportunity costs in rural areas. Moreover, there should be efforts to introduce initiatives that require community reinvestment schemes by banking financial institutions. These schemes should aim at encouraging banks to increase access to capital in rural and low income areas, promoting entrepreneurship and competitiveness.

This issue is particularly important because progress has been slow in getting remittance recipients to open bank accounts in the region. Ironically, across Latin America, banks play a central role in distributing remittances, making nearly 50 percent of all payments—but so far they have not taken advantage of this role to turn recipients into bank customers.

Figure 4: Access of Remittance Recipients to Banks and Bank Accounts



An important example of providing financial services to recipients is in Mexico. The government agency BANSEFI established a network—L@ Red de la Gente—of some 1200 banks, micro finance institutions, and credit unions to serve as distribution centers for remittances. In 2006 BANSEFI had increased its payments to 100,000 transfers and was opening accounts for about one quarter of its payment recipients.

Other strategies include:

- Loan funds and securitization
- Remittance and Financial literacy
- Financial product design or marketing
- Modernizing payment systems

Supporting projects on feasibility investment

Local communities often offer investment opportunities that can benefit from small scale investors who can create new businesses or consolidate already existing ones. To that effect

donors, in partnership with governments and private sector institutions, can work toward the creation of investment portfolios, including recommendations on business consolidation where microenterprise is ineffective or inefficient, linking investment opportunities to the transformation of subsistence agriculture, or technical assistance for business development, particularly among those seeking to return to their countries. These kinds of initiatives represent a step forward to enable an investment environment among migrants wishing to participate in small business development. In fact, part of this effort must include relaxing investment red tape and encouraging migrant outreach through the investment promotion offices.

Two areas of attention promoting investing related to migrants is nostalgic trade and tourism:

Tourism. A significant percentage of immigrants visit their home country as tourists, yet there is no tourist policy aimed at members of the diaspora. That void reflects government neglect and a lost opportunity. Governments and the private sector can participate in joint ventures to offer their migrants tour packages to discover and rediscover their home countries. They can also work out investment alliances with migrants interested in partnering to establish joint ventures relating to tourism.

Nostalgic trade. Significant demand exists for so-called nostalgic goods, and many of the small businesses created by migrants rely on the importation of such goods. Governments, development agencies, and the private sector, particularly artisans' businesses, find a natural opportunity to enhance their productive and marketing skills by locating their products with small ethnic businesses in North America and other migrant receiving countries, where strong demand exists.

Providing tax breaks on the import of technology

Remittance transfers are intimately related to their effective and efficient delivery, whereby technology plays an important role. Currently technology devices exist, such as Point of Sale Terminals (POSTs), that can further enhance remittance spending. However, access to the technology is often expensive or cumbersome to acquire. The critical importance of POSTs in remittance transfers lies in that these instruments enable the use of financial resources for payments in lieu of cash on the streets using debit cards or mobile communication devices. Modernizing small vendors and merchants with POSTs in developing countries creates a foundation to reduce cash in the street, increase saving among the public, remittance recipients in particular, and positively influence revenue streams for MFIs and banks. Remittance recipients using debit cards at their typical places of economic activity, such as kiosks, colmados, pulperias or small retail stores, would enjoy the use of this payment instrument, while better managing their resources and reducing the circulation of cash in the street.

Design projects that include education and health services

Although remittance recipients invest in health and education, the demand for good health and education services is often unmet due to lack of knowledge by the public or lack of service delivery. One important strategy to provide these services is forging business partnerships between MFIs and health and education providers to advertise and sell health insurance, utilizing already existing institutions, including public schools or clinics.

Microfinance institutions can serve as financial and social service providers through contracts with these other institutions.

Some of these services include:

a. Education funds, tutoring classes, extracurricular activities, internet lessons
In cooperation with schools, public or private, MFIs can sell education packages, including loans or services, to remittance recipients. Children will benefit greatly from parents who purchase packages of extracurricular education (arts, crafts, sports) or tutoring lessons to raise their grades. Providing these services not only improves the educational status of children of emigrants but also motivates parents working abroad to continue investing in this long term asset. Moreover, the satisfaction of parents that their children are obtaining a qualitative education is gratifying (Orozco 2006a).

b. Health insurance, specialized medicine funds
At least forty percent of remittance recipients are minors or are people in retirement, that is, individuals with a higher demand for health care services. MFIs can partner with insurance companies, clinics and health centers to sell affordable health services. These services should include emergency care, life insurance, medical insurance, body repatriation and child care. The effect of the supply of these services will enhance the quality of life of people while educating them about appropriate understandings of health care.

c. Define goals and standards to raise educational attainment and benefits from 6th to 12th grade levels
Lack of competitiveness in the global economy is a critical factor affecting economic development and outward migration. Communities where remittances arrive are places where attention to the future of their society needs more review. Education is one key component to improve local economic development, which can be leveraged through remittances. However, an economy with a mediocre educated class will not be able to fully absorb remittances. Therefore communities need to consider goals and standards to raise educational performance during five year periods in order to guarantee that children in communities with high levels of outbound migration are improving their educational attainment and achieving skills.

Provide technical assistance on financial and remittance literacy

The Central Banks of each country in Latin America and the Caribbean lack resources and capacity to provide basic financial literacy to its population. Educating people about the role of finances is a critical step toward development, and is also of becoming importance among remittance recipients. Financial and remittance literacy can be established in cooperation with Central Banks and financial institutions to reach out to the millions of remittance recipients.

Reaching out to the diaspora. An outreach policy to the community residing abroad is key to any migrant-sending country's economic strategy. Currently no such policy is in place in most countries, and governments could gain significantly from such an approach. The only significant experience is Mexico. El Salvador, Guatemala and Dominican Republic have also increased efforts to work in this field.

These efforts not only have an effect on improving the quality of life of people who receive remittances but they also add value to the local labor force. By increasing the demand for these services, new jobs are added and productivity is heightened. Thus remittances will prove to have a greater multiplying effect beyond basic consumption and personal savings.

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